Putting your best interests first.
2017
Annual Report of BlueShore Financial Credit Union

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Leadership Viewpoints

Message from Board and Management

As the economy, the global landscape and life’s stages continue to shift and shape your financial picture, one constant is having us as your financial partner. Our team of experts can offer you peace of mind knowing that we always have your back.

Thanks to our clients and employees, 2017 was a year of many achievements for BlueShore Financial. We hit a major financial milestone as Assets Under Administration (AUA) grew by $644 million to surpass the $5 billion mark. Along with our notable AUA performance, we achieved record profits and saw continued strong growth in total loans, deposits and wealth management net sales.

Complementing our financial performance was our continued recognition as an Aon Best Small and Medium Employer in Canada. Because of our highly engaged workforce and our employees’ contributions to BlueShore, we are one of only two organizations nationally to receive this honour for seven consecutive years.

We greatly value feedback from you, our clients. Once again, you confirmed via surveys that we significantly outperform other financial institutions in key areas. We’re working with your best interests in mind to make a positive contribution to your overall financial well-being. That’s something we can all feel good about.

We look ahead to 2018 with optimism and a continued commitment to putting our clients’ best interests first.

Sincerely,

Allan Achtemichuk, Chair, Board of Directors
Chris Catliff, President and CEO
Working With Your Best Interests in Mind

We have high standards. And so do you. That’s why we put our clients’ needs first and foremost in everything we do. Our goal is to provide you with personalized financial solutions, delivered in a straightforward manner.

Every interaction you have with BlueShore, whether in person, by phone or online, is backed by experience and knowledge. From everyday banking to wealth management and insurance solutions, we’re committed to making recommendations on the products and services that are right for you.

In our increasingly mobile world, we’re making strides to bring even more digital ways to make it easy to bank with us including live online chat with our Solution Centre associates coming in 2018.

Delivering on our promise

Our customer-centric approach resonates with our clients. Based on our 2017 survey results, clients who deal with our Financial Advisors consistently rate the BlueShore Financial experience significantly higher than those who deal with other financial institutions.

Our expert advice is delivered by professionals with the Certified Financial Planner (CFP) accreditation, the highest industry standard. We have one of the highest ratios of CFPs to clients in the industry. This results in 91% of our clients giving their overall experience with their Financial Advisor a top rating. And when our clients are happy, they tell others. 90% of BlueShore clients who work with a Financial Advisor say they would recommend us – that’s a powerful testament to a great experience. Learn more about what clients are saying about their BlueShore experience.

Your voice matters

Your opinions are important to us. More than 1,000 clients regularly participate in our Online Research Panel, sharing their thoughts on various topics throughout the year. In 2017, clients voiced their opinions on issues including: top financial concerns, tax efficiencies, financial advice, banking preferences and investing preferences. We use this information to guide our product and service decisions to better meet your needs. View the results of the 2017 surveys.
At BlueShore Financial, we work with you to understand your unique needs and financial goals.

Achievements & Advancements

From financial milestones to national awards, we celebrated numerous accomplishments in 2017.

Notable milestones and accolades

Assets Under Administration soared past the $5 billion mark. Reaching this financial milestone is the result of a relentless focus on our strategy of providing an exceptional client experience, delivered by knowledgeable and dedicated employees.

Our CEO Chris Catliff was presented with a prestigious 2017 BC CEO Award from Business in Vancouver and MacKay CEO Forums for his contributions to our vision and strategy, financial performance, people development, innovation, and social responsibility. Our SVP, Human Resources and Corporate Affairs, Marni Johnson, was featured on the HRD Magazine Hotlist, recognizing her leadership in innovative HR practices.

Work began on our newest Financial Spa in Vancouver’s Kerrisdale neighbourhood. We look forward to welcoming our clients to our new location, scheduled to open in 2018.

High praise for our service and expertise

We work with your best interests in mind, and it shows. Through our annual independent survey, you told us that we are improving your financial well-being and providing you with expert financial advice. These results confirm that our knowledgeable advisors and deep client relationships are creating a unique experience and providing exceptional value.

We engaged an external research company to conduct our annual mystery shop program. The program evaluates the experience delivered by all our financial, business and investment advisors and we are thrilled to report an outstanding overall score of 98.5%.

If you saw familiar faces in the media this year, that’s because more than ever, BlueShore Financial advisors and executives were sought out by the media to share their financial expertise. We provided commentary and advice on a wide range of financial and investment topics such as how rising interest rates could affect small business owners, tips on saving for a child’s future education, and tax-saving strategies for homeowners. BlueShore was featured over 150 times in local and national media outlets including the Globe and Mail, Financial Post, BNN, CTV, BC Business, The Vancouver Sun and Business in Vancouver.

A deep community connection

Ties to our local communities remained strong. This year we donated to over 30 causes including Sea-to-Sky Community Services, Lions Gate Hospital, Vancouver’s Quest Food Exchange, the Red Cross Fires Appeal and the North Shore Crisis Services Society.

We also sponsored over 20 local events to promote physical wellness and arts and culture, including The Longest Day Road Race in Vancouver, Cornucopia festival in Whistler, the Coho Run in West Vancouver, Bard on the Beach Shakespeare Festival in Vancouver, and North Vancouver’s Beer by the Pier fundraiser in support of Family Services North Shore.

As part of our commitment to encouraging financial literacy education, our advisors provided comprehensive information at several complimentary in-branch seminars and community events. Topics ranged from “investing in unsettled times” to “financial solutions for the sandwich generation.”

Progressive workplace

Fostering a positive corporate culture is critical to our success. Our talented team of employees and their commitment to our values, strategy and core purpose are reflected in the achievement of our high employee engagement score of 82%. As a result, for the seventh year in a row, Aon honoured BlueShore Financial as a Best Small and Medium Employer in Canada. We are proud to say that we are one of only two organizations nationally to have achieved this recognition seven consecutive times.

We also furthered our commitment to solidifying diversity in our workplace. BlueShore Financial CEO Chris Catliff joined other BC business leaders by signing The Minerva Foundation’s Face of Leadership Diversity Pledge. We are committed to creating opportunities that support women’s advancement and leadership in our organization and our communities.

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Advancing Growth & Profitability

Financial discussion and analysis

The Canadian economy experienced the strongest six-month start to a calendar year in 15 years. Canada’s economic growth of 3.0%1 is expected to lead the G-7 countries. Provincially, only Alberta outpaced British Columbia’s strong growth in 2017, as a result of the turnaround in the energy sector.

South of the border, the U.S. Federal Reserve Board tightened monetary conditions in 2017, following through with three rates hikes to a target range of 1.25% to 1.5%, and shrinking its balance sheet.

In 2017, the Bank of Canada introduced two rate hikes in July and September in response to strong data in the first half of the year, thereby increasing the overnight rate from 0.5% to 1.0%. The overnight lending rate increased again on January 17, 2018 to 1.25%. The national unemployment rate fell to a historically low level due to strong employment gains across industries and regions. With the economy considered to be operating close to capacity, inflation has moved closer to the central bank’s 2% target.

2017 Financial Performance

BlueShore Financial’s Assets Under Administration, including Wealth Management assets, surpassed $5 billion in 2017, adding $644 million (an increase of 14.2%) to end the year at $5.2 billion (2016, $4.5 billion). Balance Sheet Assets increased by $486 million to $4.0 billion (2016, $3.5 billion). Total Loans grew $403 million (an increase of 13.2%) and Total Deposits rose by $412 million (an increase of 13.4%).

Net Operating Income (NOI) was $23.8 million2 (2016, $12.6 million) making 2017 our highest grossing profitable year. Return on Retained Earnings (RORE) was 15.6% (2016, 9.1%) and Return on Average Assets (ROAA) was 62 bps (2016, 37 bps).

Net Interest Margin exceeded the prior year’s performance by another impressive year of double-digit loan growth. The housing market in Metro Vancouver rebounded from the softening effects of the August 2016 foreign buyers’ tax initiative, especially in condos and townhouses, in the second quarter of 2017. As a result, loan growth was strongest in the second and third quarters. Although BlueShore Financial slowed the pace of growth in the fourth quarter, demand for residential loans continued with multi-family housing unit sales volume picking up ahead of the new uninsured mortgage stress test rules, applying to federally regulated financial institutions from January 2018 onwards. Non-Interest Income also exceeded the previous year, with industry-leading Wealth Management results benefiting from double-digit market growth and a $5.3 million one-time gain on sale of the Marine Drive branch property.

Non-Interest Expenses were well managed but exceeded the prior year, mainly due to higher allowances for loan losses, regulatory costs in line with deposit growth, and budgeted additional staff to advance strategy and support client services.

2018 Economic Outlook

The combination of fiscal spending, lower taxes and higher wages should push the U.S. economy forward in 2018. A gradual but consistent raising of the federal funds rate is predicted in anticipation of building wage and price pressures. If tax reform boosts the economy more than expected, further hikes may occur.

For Canada, potential new trade agreements with the U.S. and the threat of tariff protection on Canadian exports introduce significant uncertainty for the Canadian economic outlook. In the absence of major disruptions, a modest level of growth is anticipated for 2018.

BlueShore Financial has set its 2018 targets to recognize the changes continuing to unfold in the year ahead. Rising interest rates and more stringent lending rules are expected to cool consumer spending as well as housing market and home building activity. The slower real estate market is expected to dampen demand for loans to some degree, but the Credit Union is nevertheless budgeting for steady growth in both loans and deposits. Our Wealth Management and Insurance contributions are also targeted to grow steadily in 2018 and a new Financial Spa® is planned for the Kerrisdale neighbourhood of Vancouver in 2018. Our strong balance sheet reflects healthy liquidity, a solid capital base, and outstanding asset quality.

“Our strong balance sheet reflects healthy liquidity, a solid capital base, and outstanding asset quality.”
- Richard Butterworth, Chief Financial Officer

For more information:
Full Financial Statements
Management Discussion & Analysis

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1 Source: Bank of Canada’s Monetary Policy Report, January 2018
2 Includes $5.3 million related to the gain on the sale of Marine Drive property in March 2017

To the Members of BlueShore Financial Credit Union

The accompanying summarized consolidated financial statements, which comprise the summarized consolidated statement of financial position as at December 31, 2017, and the summarized consolidated statement of income and retained earnings for the year then ended, are derived from the audited consolidated financial statements of BlueShore Financial Credit Union (“the Credit Union”) as at and for the year ended December 31, 2017. We expressed an unmodified audit opinion on those consolidated financial statements in our report dated February 15, 2018.

The summarized consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards. Reading the summarized consolidated financial statements, therefore, is not a substitute for reading the audited consolidated financial statements of the Credit Union.

Management’s Responsibility for the Summarized Consolidated Financial Statements
Management is responsible for the preparation of the summarized consolidated financial statements on the basis described in note 1.

Auditors’ Responsibility
Our responsibility is to express an opinion on the summarized consolidated financial statements based on our procedures, which were conducted in accordance with Canadian Auditing Standard (“CAS”) 810, Engagements to Report on Summary Financial Statements.

Opinion
In our opinion, the summarized consolidated financial statements derived from the audited consolidated financial statements of the Credit Union as at and for the year ended December 31, 2017 are a fair summary of those consolidated financial statements, on the basis described in note 1.
Financial Results

Summarized Consolidated Statement of Financial Position
as at December 31, 2017 (in thousands of dollars)

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and Cash Equivalents</td>
<td>80,818</td>
<td>36,722</td>
</tr>
<tr>
<td>Loans</td>
<td>3,454,912</td>
<td>3,053,550</td>
</tr>
<tr>
<td>Interest-bearing Deposits</td>
<td>324,876</td>
<td>297,571</td>
</tr>
<tr>
<td>Financial Assets and Investments</td>
<td>70,393</td>
<td>52,214</td>
</tr>
<tr>
<td>Premises and Equipment</td>
<td>54,973</td>
<td>56,694</td>
</tr>
<tr>
<td>Intangible Assets</td>
<td>5,998</td>
<td>7,357</td>
</tr>
<tr>
<td>Other Assets</td>
<td>10,597</td>
<td>10,500</td>
</tr>
<tr>
<td>Deferred Income Tax</td>
<td>1,605</td>
<td>2,616</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$4,004,172</strong></td>
<td><strong>$3,517,224</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIABILITIES AND MEMBERS’ EQUITY</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Members’ Accounts: Demand Deposits</td>
<td>695,454</td>
<td>691,124</td>
</tr>
<tr>
<td>Term Deposits</td>
<td>2,428,691</td>
<td>2,040,259</td>
</tr>
<tr>
<td>Registered Deposits</td>
<td>336,649</td>
<td>319,854</td>
</tr>
<tr>
<td>Accrued Interest</td>
<td>22,679</td>
<td>3,140</td>
</tr>
<tr>
<td>Borrowings and Debt Liabilities</td>
<td>287,441</td>
<td>233,364</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>38,309</td>
<td>32,390</td>
</tr>
<tr>
<td>Membership and Preferred Equity Shares</td>
<td>1,274</td>
<td>1,253</td>
</tr>
<tr>
<td>Members’ Equity: Retained Earnings</td>
<td>161,158</td>
<td>141,793</td>
</tr>
<tr>
<td>Equity Shares</td>
<td>38,867</td>
<td>33,883</td>
</tr>
<tr>
<td>Accrued Other Comprehensive (Loss) Income</td>
<td>(6,350)</td>
<td>3,164</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$4,004,172</strong></td>
<td><strong>$3,517,224</strong></td>
</tr>
</tbody>
</table>

Total Assets under Administration $5,189,018 $4,544,411

Summarized Consolidated Statement of Income and Retained Earnings
for the year ended December 31, 2017 (in thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Income</td>
<td>122,508</td>
<td>108,430</td>
</tr>
<tr>
<td>Interest Expense</td>
<td>52,068</td>
<td>47,559</td>
</tr>
<tr>
<td><strong>Net Interest Income</strong></td>
<td><strong>70,440</strong></td>
<td><strong>60,871</strong></td>
</tr>
<tr>
<td>Fee, Commission and Other Income</td>
<td>20,861</td>
<td>13,755</td>
</tr>
<tr>
<td><strong>Net Operating Income</strong></td>
<td><strong>91,301</strong></td>
<td><strong>74,626</strong></td>
</tr>
<tr>
<td>Non-interest Expenses</td>
<td>64,782</td>
<td>60,454</td>
</tr>
<tr>
<td>Loan Impairment Expense</td>
<td>2,685</td>
<td>1,600</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td><strong>23,834</strong></td>
<td><strong>12,572</strong></td>
</tr>
<tr>
<td>Community Investment</td>
<td>238</td>
<td>126</td>
</tr>
<tr>
<td>Income Tax Expense</td>
<td>2,743</td>
<td>1,972</td>
</tr>
<tr>
<td><strong>Retained Earnings - Beginning of Year</strong></td>
<td><strong>20,853</strong></td>
<td><strong>10,474</strong></td>
</tr>
<tr>
<td>Dividends on Equity Shares - Net of Tax</td>
<td>(1,488)</td>
<td>(1,250)</td>
</tr>
<tr>
<td><strong>Retained Earnings - End of Year</strong></td>
<td><strong>$161,158</strong></td>
<td><strong>$141,793</strong></td>
</tr>
</tbody>
</table>

Allan Achtemichuk, Chair  Peter Leitch, Audit Committee Chair

Note 1 - Message to Members

The accompanying summarized consolidated financial statements have been prepared, in accordance with Section 128 (4) of the Financial Institutions Act, from the consolidated statement of financial position of BlueShore Financial Credit Union as at December 31, 2017, and the consolidated statements of income, comprehensive income and changes in members’ equity for the year then ended. Readers are cautioned that these summarized consolidated financial statements do not include all the disclosures necessary for a complete presentation. Complete audited consolidated financial statements for the year ended December 31, 2017, together with the auditors’ report thereon, are available from the Credit Union and will be provided at the annual general meeting of members on April 18, 2018.

Please note: Copies of the complete audited consolidated financial statements are also available on request at all BlueShore Financial locations or online at blueshorefinancial.com.

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BlueShore Financial is committed to excellence in corporate governance.

In addition to approving long-range objectives and policies, the Board closely monitors the Credit Union’s progress. The Board continually reviews its corporate governance practices to ensure they reflect the appropriate oversight, independence and accountability our clients and stakeholders expect and deserve.

In 2017, our Board continued its focus on:

- Reviewing the organization’s long-term strategic plan and monitoring management’s execution of the plan.
- Ensuring the organization has a comprehensive enterprise-wide risk management process and is monitoring risk, including emerging risks due to global uncertainties, on an ongoing basis.
- Reviewing results of ongoing client surveys to understand feedback on what is important to clients and to ensure we are achieving or exceeding expectations.
- Ensuring the Board has the appropriate regulatory (and other) committees and the expert resources to accomplish their oversight responsibilities.
- Adhering to the “Standards of Sound Business and Financial Practices,” as recommended by Stabilization Central Credit Union.
- With assistance from industry compensation experts, setting the compensation and performance objectives for the Chief Executive Officer, reviewing the compensation for Executive Management and overseeing the compensation philosophy for the organization.
- Conducting formal evaluations of overall Board performance, facilitated by a third-party expert.
- Reviewing the skills and experience required for Board members through the Nominations and Election Committee, and proactively seeking out individuals who they believe best possess the skills required.
- Completing mandatory industry director education sessions and staying current with governance best practices through leading governance organizations such as the Institute of Corporate Directors.
- Engaging with management and internal and external auditors to review the internal controls, accounting and auditing to ensure timely and accurate financial reporting.

In 2018, the Board will continue to commit significant time and resources to ensure governance policies reflect best practices for credit unions, including adherence to the Governance Guideline issued by the Financial Institutions Commission (FICOM).
BlueShore Financial Board of Directors

The following Directors served during fiscal 2017:

Allan Achtemichuk
Board Chair (Effective April 19, 2017)

Peter Leitch
Board Vice-Chair
Audit Committee Chair

Brian Atkins (Retired April 2017)

Dave Davenport
Board Chair (Effective January 1 - April 19, 2017)

Rod Dewar (Elected April 2017)

Yuri Fulmer
Human Resources & Compensation Committee Chair

Gordon Janzen (Elected April 2017)

Julie McGill
Investment & Loan Committee Chair

Justin Webb
Nominations & Election Committee Chair

Victoria Withers
Governance & Conduct Review Committee Chair

BlueShore Financial Executive Management

Chris Catliff
President and Chief Executive Officer

Richard Butterworth
Chief Financial Officer

Fred Cook
Chief Information Officer

Marni Johnson
Senior Vice President, Human Resources and Corporate Affairs

Bill Keen (Retired July 2017)
Chief Financial Officer

Reg Marrinier
Senior Vice President, Retail and Business Banking

Doug Smith (Retired December 2017)
Senior Vice President, Governance

BlueShore Financial Subsidiaries

BlueShore Capital Corporation
BlueShore Leasing Ltd.
BlueShore Strata Finance Ltd.
BlueShore Transport Finance Ltd.
BlueShore Wealth Ltd.
Morningside Properties Ltd.

BlueShore Financial is an equal partner with Capital West Mortgage Inc. in a Joint Venture that manages Pacifica Mortgage Investment Corporation.

Head Office & Administration
1250 Lonsdale Avenue
North Vancouver, BC

BlueShore Financial Branches

Burnaby
4403 Hastings Street

North Vancouver
101 - 3053 Edgemont Blvd
1250 Lonsdale Avenue
110 - 1200 Lynn Valley Road
1080 Marine Drive
3680 Mt Seymour Parkway

Pemberton
2 - 7438 Prospect Street

Squamish
102 - 40147 Glenalder Place

Vancouver
110 - 1100 Melville Street
2212 West Broadway

West Vancouver
Park Royal Village, 815 Main Street

Whistler
101 - 4321 Village Gate Blvd